

**To the Mayor and Members of the City Council****October 27, 2015**

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**SUBJECT: OVERVIEW OF THE CITY'S INVESTMENT PORTFOLIOS****Background**

It is the policy of the City that the administration of cash and investments be handled in a manner that promotes public trust. Investments shall be made in a manner which will provide the maximum security of principal while meeting the daily cash flow needs of the City. The City's Investment Policy defines the parameters within which funds are to be managed and outlines reasonable standards for our investment operations.

The purpose of the Policy is to set specific investment activities and strategy guidelines. The Policy formalizes the framework for the City's investment activities that must be exercised to ensure effective and judicious fiscal and investment management of its funds. The guidelines are intended to be broad enough to allow the Chief Financial Officer / Investment Officer to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

**Standards and State Law**

All investment activities are conducted in full compliance with applicable City ordinances as well as state and federal regulations. Specific statutory regulations for the investment of public funds in Texas are found in the Public Funds Investment Act, Chapter 2256, Texas Government Code.

Collateral requirements are established in Texas by the Public Funds Collateral Act, Chapter 2257, Texas Government Code, for all public Texas funds deposits. In accordance with this law, the City's financial institutions must collateralize deposits at 102% of market value.

Furthermore, such activities shall be designed to adhere to guidelines, standards, and practices promulgated by such professional organizations as the American Institute of Certified Public Accountants (AICPA), the Governmental Accounting Standards Board (GASB), and the Government Finance Officers Association (GFOA), whenever practicable.

**The City oversees and /or manages three investment portfolios including:**

1. Operating Portfolio
2. Other Post Employee Benefit Portfolio (OPEB)
3. Gas Well Trust.

The City's retirement trust is administered by the Fort Worth Employees Retirement Fund Board.

Details for each of these specific and individual portfolios are more fully discussed below.



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The policy states that the City shall manage and invest its assets with four major objectives, listed in order of priority:

1. Safety;
2. Liquidity;
3. Diversification; and
4. Yield.

Safety of the principal is the primary objective within this portfolio. All investments are managed in a manner responsive to maintaining the public's trust. Except for restricted or special funds, the City maintains a Consolidated Portfolio in which its funds are pooled for investment purposes to maximize investment earnings and to increase investment efficiencies with regard to pricing, safekeeping, and administration. Operating within appropriately established administrative and procedural parameters, the City balances the preservation of principal while balancing investment returns, while simultaneously controlling our related investment expenses.

The investment strategy incorporates the specific investment considerations and the unique characteristics of the fund groups represented in the portfolio. The City shall pursue a proactive portfolio management strategy by placing assets in high credit quality investments. Securities lending is used to add incremental income. The strategies utilize competitive bidding practices and other controls as established by this Policy for all transactions.

At all times the City maintains a cash buffer to meet daily anticipated liquidity requirements and maintains an approximate 10% of the portfolio in liquid investments. Based on historic cash flow analysis, the City does not exceed a weighted average maturity (WAM) of two and one-half years for the portfolio as a whole, and no security exceeds a maximum stated maturity of five years.

Investment earnings are allocated to the various funds based on each individual fund's pro rata participation in the portfolio and in accordance with generally accepted accounting principles.

Securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade. The Investment Advisor continuously monitors the contents of the portfolio, the available markets, and the relative value of competing instruments to adjust the portfolio in response to market conditions.

**Delegation of Authority – Operating Investments**

Financial Management Policy Statements (FMPS) were initially adopted by the City Council on January 15, 1994 (M&C G11199). By law, the City Council retains ultimate fiduciary responsibility for the portfolio. The Council is required to receive quarterly reports and annually review and



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adopt the Investment Policy and Strategy. The FMPS is periodically updated with revisions and refinements as deemed necessary. On September 15, 2015 the City Council adopted the most recent version of the FMPS for the Fiscal Year 2016 (M&C G18552), which met the annual requirement to complete a review and update.

In adopting the FMPS, the City Council continued the practice of using an Investment Committee to provide guidance to the Investment Advisor and maintain compliance over the portfolio. In accordance with the Act, the City Council delegated to the Committee authority to approve the annual broker/dealer list and to authorize organizations to provide the training required under state law. No other authority is transferred to the Committee. The Committee meets quarterly to review and approve the investment portfolio position, to review portfolio performance, and to discuss investment strategies. This Committee will annually review the Investment Policy and recommend possible changes to the City Council.

The Committee is comprised of the Chief Financial Officer/Finance Director, the Assistant Finance Directors, the Assistant Treasurer, the Investment Advisor (Patterson & Associates), a member of the Legal department, a member of the Water department, and other appropriate personnel as chosen by the Committee.

The City engages the services of a SEC-registered Investment Advisor, (Patterson & Associates) to assist in the management of the investment portfolio. They are paid \$60,000 per year for their services and the contract is renewed annually in July. The Investment Advisor is not granted total discretion in the management of funds; rather, they have been granted limited discretion to purchase and sell investment securities in accordance with the Investment Policy and state law.

**Authorized Investments under State Law – Operating Portfolio**

The City shall invest only in those investments authorized below.

1. Direct obligations of the United States Treasury with a maximum stated maturity of five (5) years.
2. Obligations of United States government agencies and instrumentalities, including mortgage backed securities and collateralized mortgage obligations (CMO) which pass the Federal Reserve's *bank* test, with a maximum maturity of five (5) years.
3. FDIC insured and/or collateralized depository certificates of deposit from banks in Texas, with a maximum maturity of three (3) years.
4. Commercial paper rated A1/P1 or equivalent by two nationally recognized rating agencies, with a maximum maturity of ninety (90) days.



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5. AAA or equivalent rated, constant dollar, Texas local government investment pools as defined by the Act.
6. AAA-rated, SEC-registered money market mutual funds.
7. FDIC insured brokered certificates of deposit securities from a bank in any US state, delivered versus payment to the City's safekeeping agent, not to exceed one year to maturity. Before purchase, the Investment Officer(s) or Investment Advisor must verify the FDIC status of the bank on [www.fdic.gov](http://www.fdic.gov) to ensure that the bank is FDIC insured.

**General Portfolio – Operating Investments**

As of September 30, 2015, the operating portfolio consisted of a total asset allocation of \$906,644,572.37. Of that allocation, investments with agencies make up 37.58%, money market accounts make up 11.56%, US treasuries make up 38.42%, and the remaining 12.44% is held in municipal bonds.

The City's performance benchmark is the 12 month moving average of the yield of the 1-year Treasury bill. The City has consistently outperformed the benchmark as identified in the chart below.

	4Q 13-14	1Q 14-15	2Q 14-15	3Q 14-15	FY to Date
<b>Fort Worth</b>	<b>0.64</b>	<b>0.63</b>	<b>0.62</b>	<b>0.64</b>	<b>0.62</b>
1 Yr T-Bill	0.10	0.21	0.21	0.33	0.248
2 Yr T-Note	0.51	0.64	0.58	0.64	0.64

**Other Post-Employment Benefits (OPEB) Investments**

With the implementation of Government Accounting Standards Board Statement 45 (GASB 45), the City began planning and accounting for its Other Post-Employment Benefits (OPEB), which includes the City's retiree healthcare and death related benefits.

In October 2006, the City's unfunded actuarial accrued liability for OPEB was first identified. To begin addressing this liability, on September 17, 2008, the City Council adopted Ordinance No. 18287-09-2008 providing that the City will not contribute to the cost of post-retirement health benefits for employees hired on or after January 1, 2009, or their dependents.

On August 18, 2009, the City Council approved an Other Post-Employment Benefits (OPEB) Trust as part of the City's program of benefits in order to provide a contributing funding source for retiree healthcare benefits (M&C C-23730). After an initial installment in Fiscal Year 2009,



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the City adopted a 20-year funding strategy with Resolution No. 3921-09-2010 on September 21, 2010. On September 24, 2013, the City Council approved Resolution No. 4247-09-2013 to further revise this funding strategy, modifying the overall funding target and extending the funding period to allow for more manageable annual contributions from operating budgets beginning in Fiscal Year 2014.

On June 2, 2015 the adopted funding strategy for OPEB was revised (M&C G-18494.) In particular, Resolution No. 4464-06-2015 discontinued future contributions to the OPEB Trust from the City's annual operating budgets and designates net position (fund balance) in the Group Health and Life Insurance Fund for transfer to the OPEB trust when the fund's net position exceeds its reserve requirements and when approved by the Mayor and Council. In addition, Staff is required to include options in each year's proposed budget for the required annual pay-as-you-go amount for retiree health benefits. Staff is also charged with continuing to monitor the City's Unfunded Accrued Actuarial Liability (UAAL) for retiree healthcare and to report the UAAL to the City Council at least annually. M&C G-18494 also appropriated the excess reserves in the Group Health and Life Insurance Fund for transfer to the OPEB Trust and authorized the transfer. Because the money in this fund was intended to be used for healthcare, Staff recommended that the \$10,632,231 in the fund that is in excess of the newly adopted reserve requirement be appropriated and transferred to the OPEB Trust, which is limited to healthcare expenditures.

Public Agency Requirement Services (PARS) acts as the Trust Administrator and Consultant. Their duties involve recordkeeping, actuarial coordination, monitoring contributions, processing disbursements, monitoring compliance, and providing ongoing client liaison services. U.S. Bank, as the Trustee, safeguards the plans assets, provides oversight protection, and is the custodian of assets. In turn, U.S. Bank delegates investment authority to HighMark Capital Management, a SEC registered investment advisor. Highmark is authorized to purchase, sell, exchange, invest, reinvest and manage designated assets based upon the parameters established for the Trust by the City.

The City pays PARS an annual fee from Plan assets based on the following schedule:

<u>For Plan Assets from:</u>			<u>Annual Rate:</u>
\$0	to	\$10,000,000	.25 bps
\$10,000,001	to	\$15,000,000	.20 bps
\$15,000,001	to	\$50,000,000	.15 bps
\$50,000,001	to	above	.10 bps

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**OPEB Investment Goals & Objectives**

The goal of the Plan's investment program is to generate adequate long-term returns that, when combined with contributions, will result in sufficient assets to pay the present and future obligations of the Plan. The Plan should earn, on a long-term average basis, a rate of return equal to or in excess of the target rate of return of 4.10%. The Plan should also seek to earn a return in excess of its policy benchmark over the long-term. Lastly, the Plan's assets will be managed on a total return basis which takes into consideration both investment income and capital appreciation. To achieve these objectives, assets are allocated with a strategic, long-term perspective of the capital markets.

The investment strategy selected by the City is entitled Moderately Conservative, which seeks to provide current income and moderate capital appreciation. The asset allocation ranges for this objective are: 0-20% Cash, 50%-80% Fixed Income, and 20%-40% Equity. The major portions of the assets are committed to income-producing securities. The current allocation is: 5% Cash, 65% Fixed Income and 30% Equity. Investment return data for the trust is provided below:

Sector	3 Months	Year to Date (9 Months)	1 Year	3 Years	Inception to Date (5 Years)
Cash Equivalents	.01	.02	.02	.02	.02
<i>iMoneyNet, Inc. Taxable</i>	.01	.01	.02	.02	.02
Total Fixed Income	.89	.75	2.04	1.57	2.70
<i>BC US Aggregate Bd Index</i>	1.23	1.13	2.94	1.71	3.10
Total Equities	-9.03	-6.69	-4.03	9.38	10.15
Large Cap Funds	-7.01	-6.00	-1.45	12.00	12.98
<i>S&amp;P 500 Composite Index</i>	-6.44	-5.29	-.61	12.40	13.34
Mid Cap Funds	-8.08	-5.98	-.39	13.72	13.15
<i>Russell Midcap Index</i>	-8.01	-5.84	-.25	13.91	13.40
Small Cap Funds	-11.64	-7.86	1.27	12.10	13.51
<i>Russell 2000 Index</i>	-11.92	-7.73	1.25	11.02	11.73
International Equities	-11.53	-7.31	-11.51	.91	.57
<i>MSCI EAFE Index</i>	-10.23	-5.28	-8.66	5.63	3.98
<i>MSCI EM Free Index</i>	-17.90	-15.47	-19.28	-5.27	-3.58
Total Managed Portfolio	-1.97	-1.25	.48	3.81	4.82
Total Account Net of Fees	-2.00	-1.37	.32	3.62	4.60

**Portfolio - OPEB Investments**

The initial contribution in September 2009 was \$5,000,000. Additional contributions were made in the amount of \$44,785,724 resulting in total contributions in the amount of \$49,785,724. There have been no disbursements and the account balance as of September 30, 2015 is \$66,028,968.



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**SUBJECT: OVERVIEW OF THE CITY'S INVESTMENT PORTFOLIOS****Gas Well Trust / Fort Worth Permanent Fund Policy, Objectives and Strategy**

The City Council has designated that certain funds obtained from mineral rights owned by the City be placed in a trust for benefit of the City, with such trust to be known as the Fort Worth Permanent Fund. Those funds that have been obtained from mineral rights but not designated as part of the Permanent Fund will be managed as part of the City portfolio under the City Investment Policy addressed earlier in this document.

The Fort Worth Permanent Fund Investment Policy and Strategy sets specific investment and strategy guidelines for funds placed in the Permanent Fund, and establish controls to ensure effective and judicious fiscal and investment management. The guidelines are intended to be broad enough to allow active investment within the Policy parameters yet specific enough to adequately safeguard the assets.

All Permanent Fund investment activities are conducted in full compliance with applicable City ordinances as well as state and federal regulations. Statutory regulations generally applicable to the investment of public funds in Texas are found in the Public Funds Investment Act, (Chapter 2256, Texas Government Code) with a specific provision applicable solely to municipal funds from management and development of mineral rights found in Sec. 2256.0202 of the Act, which incorporates by reference The Texas Trust Code (Subtitle B, Title 9, Property Code). All investments of monies in the Permanent Fund are made in accordance with these statutes and this more restrictive Policy. As previously mentioned, collateral requirements are established in Texas by the Public Funds Collateral Act, (Chapter 2257, Texas Government Code.)

The City manages and invests its assets in the Gas Well Trust with four major objectives, listed in order of priority:

1. Safety;
2. Liquidity;
3. Diversification; and
4. Yield.

Safety of principal is the foremost objective of the City's overall investment program, and safety of principal is an objective with respect to the investment of the Permanent Fund as well. Investment transactions and strategies address and consider the preservation of capital and minimization of capital loss as well as growth. Liquidity is not critical in the Permanent Fund because these funds are not to be used for ongoing operational liabilities. Diversification in the portfolio structure is intended to further protect the Permanent Fund from over-concentration.

Contributions to The Permanent Fund are invested in designated sub-accounts. These sub-accounts include: The Aviation Endowment Gas Lease Fund, The Nature Center Endowment

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Gas Lease Fund, The Park System Endowment Gas Lease Fund (restricted and unrestricted), and The Water and Sewer Endowment Gas Lease Fund.

Strategies shall utilize competitive bidding where appropriate and other controls as established for all transactions pursuant to the terms of the Trust. Securities may be sold or traded if an opportunity exists to benefit from the transaction. Trades must be documented. The Trustee will continuously monitor the contents of the portfolio, the available markets, and the relative value of competing instruments to adjust the portfolio in response to market conditions.

The Fort Worth Permanent Fund Investment Policy and Strategy is reviewed by the Investment Committee and adopted by the City Council at least annually. September 15, 2015 City Council adopted the Permanent Fund Investment Policy and Strategy (M&C G18552) for Fiscal Year 2016.

**Delegation of Authority and Responsibilities - Fort Worth Permanent Fund****City Council**

By law, the City Council retains ultimate fiduciary responsibility for the Permanent Fund regardless of management assignment. The Council receives quarterly reports and annually reviews and adopts the Policy. The Investment Committee designated by Council is responsible for reviewing and authorizing all broker/dealers. The same Investment Committee who oversees the operating portfolio provides oversight to the Fort Worth Permanent Fund.

The Chief Financial Officer is responsible for monitoring the portfolio and reports submitted by the Trustee.

**Trustee**

The Trustee, Wells Fargo, is responsible for monitoring and controlling the portfolio in accordance with the terms of the Trust Agreement. Each Trustee serves a five year term. The Trustee may continue to serve for additional periods by mutual written agreement of the Parties. The Trustee, with approval of the City, may engage the services of a SEC-registered Investment Adviser (registered under the Investment Advisers Act of 1940) or a National Bank exempt from registration to provide the investment management of the Permanent Fund in a manner consistent with the Policy. The Trustee and the selected Investment Adviser or National Bank may be affiliated. The Trustee shall provide timely monthly and quarterly reports to the Chief Financial Officer and Investment Committee in accordance with the Act and establish internal procedures and controls for the investment process and financial counter-parties.





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**Investment Committee**

The City's Investment Committee performs a strategy and performance review at least semi-annually. The Committee will review and act on any potential need for refinement or revision of the Permanent Fund's policies or strategies. Annually the Committee approves all broker/dealers in accordance with the Act.

**Authorized Investments - Fort Worth Permanent Fund**

1. Obligations of the United States Government, its agencies and instrumentalities including mortgage backed securities and collateralized mortgage obligations (CMO) which pass the Federal Reserve's "*bank test*," with a maximum stated maturity of twenty (20) years.
2. FDIC insured and/or collateralized depository certificates of deposit from banks in Texas, with a maximum maturity of three (3) years.
3. Commercial paper rated A1/P1 or equivalent by two nationally recognized rating agencies, with a maximum maturity of 90 days.
4. AAA or equivalent rated constant dollar, Texas local government investment pools as defined by the Act.
5. AAA-rated SEC-registered money market mutual funds.
6. Debt obligations of any state or political subdivision of any US state, rated A or better with a stated maturity not to exceed ten (10) years.
7. Fully collateralized, direct repurchase agreements executed through a primary government securities dealer, with a maximum maturity of one (1) year. A Bond Market Association Master Repurchase Agreement, 102% margin, and independent third party safekeeping are required. (See section IX)
8. Banker's acceptances with a maximum maturity of 120 days accepted by a US registered bank with a short term rating of not less than A1/P1 by two nationally recognized rating agencies.
9. Domestic bond mutual funds with a maximum weighted average maturity of ten (10) years with a Morningstar rating of at least two stars.
10. International bond mutual funds with a maximum weighted average maturity of fifteen (15) years with a Morningstar rating of at least two stars.
11. Domestic or international equity and preferred stock mutual funds with a Morningstar rating of at least two stars.

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12. US or international stocks.
13. Real assets, including real estate, commodities and real estate investment trusts (REITS).
14. Complementary strategies to include hedge funds.
15. Corporate and asset backed securities rated A or better with a stated maturity not to exceed ten (10) years.

**Diversification - Fort Worth Permanent Fund**

The City as beneficial owner of the Permanent Fund recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification.

The City's target diversification is 39% in Cash and Cash Equivalents, 37% in Equities, 12% in Real Assets, and 12% in Complementary Strategies. The City's actual diversification is right in line with the target percentages with 36% in Cash and Cash Equivalents, 41% in Equities, 10% in Real Assets, and 13% in Complementary Strategies.

**Portfolio - Fort Worth Permanent Fund**

The benchmarks for risk measurement and performance of the Permanent Fund portfolio will be divided among the asset classes as outlined below.

- The benchmark for the fixed income portion shall be the Barclays' Five Year Index for the comparable period.
- The benchmark for the equity portion shall be a total return equal to a composite of the total return of S&P 500 for stocks and the EAFE for international investments comparable to the then-current makeup of the portfolio for the comparable period.
- The benchmark for the real assets portion shall be the FTSE NAREIT All Equity REIT Index for the comparable period.
- The benchmark for the commodities portion shall be the Dow Jones UBS Commodities Index for the comparable period.
- The benchmark for the complementary strategies portion shall be the HFRX Global Hedge Fund Index for the comparable period.



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The beginning year to date value of the Fort Worth Permanent Fund portfolio was \$57,078,595. There were net contributions of \$2,563,904 and an investment loss of \$2,302,657 leading to a year to date ending value of \$57,339,843. Since inception, the portfolio had a beginning value of \$35,832,362. The net contributions are \$20,787,382 with an investment gain of \$720,099. The ending value as of September 30, 2015 was \$57,339,843. The portfolio's performance is outlined below:

PORTFOLIO SUMMARY	LAST 3 MONTHS	YEAR TO DATE	LAST 12 MONTHS	SINCE INCEPTION
Beginning Value <sup>1</sup>	60,191,075	57,078,595	51,168,198	35,832,362
Net Contributions & Withdrawals <sup>2</sup>	0	2,563,904	7,818,636	20,787,382
Investment Gain or Loss <sup>3</sup>	-2,851,232	-2,302,657	-1,646,991	720,099
Ending Value <sup>1</sup>	57,339,843	57,339,843	57,339,843	57,339,843

PERFORMANCE SUMMARY	ENDING MARKET VALUE <sup>1</sup>	CURRENT PORTFOLIO ALLOCATION	LAST 3 MONTHS	YEAR TO DATE	LAST 12 MONTHS	SINCE INCEPTION <sup>2</sup>
<b>TOTAL PORTFOLIO (Net of fees)</b>	57,339,843	100.00%	-4.74%	-3.79%	-2.50%	1.40%
<i>Balanced Wealth Blend-Total<sup>4</sup></i>			-5.42%	-4.33%	-3.25%	3.41%
<b>FIXED INCOME</b>	17,165,546	29.94%	-0.11%	0.58%	0.51%	1.35%
<i>Barclays 1-5 Year Govt/Credit</i>			0.60%	1.55%	1.97%	1.67%
<b>EQUITIES</b>	23,536,487	41.05%	-9.47%	-6.52%	-5.30%	5.34%
<i>Standard &amp; Poor's 500 Stock Index</i>			-6.43%	-5.27%	-0.62%	10.51%
<i>MSCI EAFE Gross Index</i>			-10.19%	-4.91%	-8.27%	3.14%
<b>REAL ASSETS</b>	5,837,881	10.18%	-2.72%	-5.98%	0.28%	2.30%
<i>FTSE NAREIT All Equity REIT Index</i>			0.99%	-4.51%	7.84%	7.98%
<i>Bloomberg Commodity Total Return Index</i>			-14.47%	-15.80%	-25.99%	-14.33%
<b>COMPLEMENTARY STRATEGIES</b>	7,263,447	12.67%	-3.44%	-1.41%	0.07%	1.59% <sup>2</sup>
<i>HSRX Global Hedge Fund Index</i>			-4.27%	-3.05%	-4.74%	-0.13%
<b>CASH &amp; EQUIVALENTS</b>	3,536,482	6.17%	0.00%	0.00%	0.00%	0.00%
<i>Lipper Money Market Index</i>			0.00%	0.01%	0.01%	0.01%

If you have any questions, please call Aaron Bovos, Chief Financial Officer, at 817-392-8517.

**David Cooke**  
City Manager